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Attached are comments on the Washington Post article on Soviet Defense Potential which you requested of [redacted]

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Soviet Ability To Accelerate Arms Debated

Reagan SALT Stance Shaped by Economics

By Walter Pincus
Washington Post Staff Writer

President Reagan has adopted the view, still not accepted by the Central Intelligence Agency and many Soviet experts, that the Soviet economy is so overburdened that Moscow's current level of defense spending could not expand in response to U.S. abandonment of the SALT II treaty limits, according to sources inside and outside the government.

Reagan's attitude was shaped largely by a meeting in April with Henry S. Rowen, a Soviet expert on the faculty of the Stanford University Business School and a senior research fellow at the Hoover Institute of War and Peace. Rowen headed a recent CIA review of the Soviet economy, which described Moscow as facing a "terrible economic situation."

Rowen concluded, according to colleagues on the panel, that Soviet economic problems made it doubtful that Moscow could finance the kind of major weapons buildup that had been predicted by a 1985 CIA study. In a telephone interview from France where he is vacationing, Rowen said that he was "not saying they could not respond with some increases."

"The president believes the Soviets are in bad shape economically," one source who met recently with Reagan said.

Kenneth L. Adelman, director of the Arms Control and Disarmament

See DEBATE, A18, Col. 1

■ *Soviet officials hint at better ties with U.S* *Page A13*

Soviet Ability To Accelerate Arms Debated

DEBATE, From A1

Agency, who pushed for Reagan's May 27 announced intention to exceed the limits of the unratified SALT II treaty, captured the president's view last week when he wrote in The New York Times that "the Soviets already have their accelerator near or on the floor" and thus could not significantly increase their strategic weapons production.

Not everyone agrees.

Reagan and his aides are "profoundly misguided," according to Dmitri Simes, a Soviet expert with the Carnegie Endowment for International Peace. Soviet leader Mikhail Gorbachev "definitely has serious problems at home and abroad and in the long run the [Reagan] view might prove correct."

But the new Soviet leadership has "a new element of self-confidence bordering on arrogance . . . . If we believe they are on the ropes and they, in contrast, feel they can keep Mother Russia not second to anyone, that can lead to a bad time," Simes added.

David Holloway, a specialist on Soviet defense policy at Stanford University, said that although the Soviet economic problems are serious, "they are not so bad that they can't stay in the arms race . . . . The key thing is not economic but political, the willingness of Gorbachev to make that kind of decision and mobilize support."

At a recent news conference, Soviet Embassy arms control specialist Vitaly Churkin bristled when asked about the Reagan administration view that Moscow could not undertake an arms buildup. "I would like to point out that as you know historically, if anything, we are very good at rising up to challenges. If we are challenged, we will certainly be able to respond in kind.".

While there is debate among Kremlinologists over the capabilities of the Soviet military-industrial complex, there is surprising unanimity that Gorbachev has been trying to cap Moscow's defense spending.

Under Gorbachev's leadership, according to Steven Meyer, a Soviet expert at the Massachusetts Institute of Technology, the recent Soviet Party Congress platform approved a change in the description of how defense spending levels will be determined in a way that permits the party's political leaders to lower them.

The new standard, Meyer said, is to fund the military so it can prevent "strategic superiority of the forces of the imperialists," whereas the previous standard was a pledge to provide the Soviet military with whatever it believed needed "to reliably defend the homeland."

Under the old formulation, the Soviet chief of staff would have the final word on what was needed. Now, Meyer said, the party leadership will be able to insert its views on what the United States is doing as part of the mix.

U.S. intelligence sources said that the policy shift initially came to light after reports arose of a clash between Soviet political and military figures in high-level conferences.

Meyer and Holloway said they believe the change gives Gorbachev a new tool to control military funding. "The shift reflects not just economic but also doctrinal constraints on the military," Holloway said.

Rowen acknowledged that "Gorbachev is trying to hold down if not cut defense spending," but said the move relates to overall Soviet economic problems.

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Gorbachev and the Ailing Russian Bear

By HENRY S. ROWEN
And VLADIMIR G. TREML

The leadership of the Soviet Union is confronted with the most fundamental and difficult of choices, one made more urgent by the precipitous decline in oil prices:

• It faces the prospect of continued, perhaps worsened, economic stagnation. Overcoming this condition requires a major increase in the productivity of labor and capital; this increase is sought through new managers, more discipline, a crackdown on alcoholism, and renovation of the nation's stock of machinery. But what is really needed is to reduce the regime's central control over the economy.

• Reduced control would alter the distribution of income, transform repressed inflation into open inflation and probably cause labor strife. In time, it would diminish party control over the country.

• Without such a shift the country is fated to remain economically backward—behind by about a generation (25 to 30 years)—relative to the West. Although such a lag certainly doesn't exist for the Soviet military sector today, over time its ability to compete militarily will be in jeopardy.

It is increasingly apparent that the period of rapid economic growth from 1950 to 1975, which averaged 5% a year, was a one-time shift from a very backward, largely agricultural society to a semi-modern, largely industrialized one. This growth was achieved through extensive exploitation of natural resources, more labor inputs, and technology obtained from the West. Since 1975, estimated gross national product growth has averaged a little more than 2% a year (1% per capita). Although growth in the West also slowed over this period, the West was badly hurt by oil-price rises while the Soviet Union, a major oil and gas exporter, profited from them.

No Call for Sacrifices

There also is abundant evidence of grave social ills. Infant mortality has been increasing, alcoholism has reached alarming levels, and life expectancy has been declining for 20 years. By 1980, the average life expectancy of men had receded to the mid-1950s level of about 60 years.

The new Five Year Plan (1986-90) promises to get the country moving again. It sets an ambitious target of 5%-a-year growth to 2000. It calls for a more modest 3½% GNP increase for the next five years, industrial output growing at 4½% a year and machinery output at around 7%. The supply of consumer goods is to grow also; there was no call for sacrifices at the recent 27th Party Congress.

This is to be done with little n[illegible] year in total investment. A huge investment increase is planned for machine-building (80%) and a large one for energy (about 30% for oil, coal and electric power). The large share going to agriculture is to be held nearly constant. So all other categories will have to fall: transportation, construction, housing, services. The key, then, must be increased productivity. Factors of production (of labor and capital), which declined about 1% a year after 1975, are now to increase by almost 1% a year.

This is not a credible plan. An obvious problem is a much worsened trade prospect. Since the early 1970s the Soviet economy has become much more dependent upon trade; there have been massive imports of food, consumer goods and machinery. (By the early 1980s more than one-third of newly installed machinery was imported.) Now, that growth source is gone. After years of increases, oil production has declined for two years and in 1985 the volume of oil exports to the West declined 30%. To compound the problem, the dollar price of oil has fallen about one-half. (This drop lowers the value of natural gas sold to Western Europe about $1.5 billion a year; if the Europeans don't negotiate a payment cut, they will be giving the Soviets a huge gift.) To top it off, weapons sales to oil-rich countries, a market recently valued at $5 billion to $6 billion a year, are shrinking fast.

Altogether, Soviet hard-currency earnings in 1986 will be half what they were in 1984. Moscow's response last year was to borrow an additional $5 billion, and it will seek more this year. By the end of 1986, its net debt probably will be about $20 billion as against annual hard-currency earnings of under $20 billion. Further borrowing from private sources will come harder—in the absence of Western government guarantees. Moscow will try to sell more oil to the West, perhaps diverting more from the East Europeans for that purpose, and more gold and diamonds, but if oil prices stay down, it won't come close to recouping its losses.

The result will be a sharp fall in some combination of Soviet food and equipment imports from the West; the choice of which to cut will be a hard one. At the very least, extra machinery will not be available from [illegible] derwriting loans and overpaying for gas.

Moscow is already squeezing the East Europeans to get more and better machinery out of them. The days of Soviet subsidized oil are over; indeed, Moscow is now trying to get more from them in exchange for less. The limit to this squeezing process will be the fear of further popular eruptions in Eastern Europe.

In short, economic performance will probably be no better than in the recent past and could easily be worse. (The anti-drinking campaign, potentially beneficial in the long run, probably won't help soon. It leaves people with more money but few additional goods; the likely result is more inflation.) One consequence—of symbolic importance—is that Japan by 1990 may have displaced the Soviet Union as the world's second-largest economy.

Mr. Gorbachev talks about major changes that "ought" and "should" be made. But there is a poverty of new, basic ideas, and nothing major happens.

Mr. Gorbachev talks about major changes that "ought" and "should" be made. But there is a poverty of new, basic ideas, and nothing major happens. Of course, the bureaucracy mightily resists change and Mr. Gorbachev will want to limit changes to those essential to eking out enough economic gains to enable him, above all, to keep control over the country and also to sustain its military strength and its foreign empire. With good weather, enough Western resources, and skillful management, he can defer the riskier strategy of giving people more economic freedoms in order to stimulate growth.

If the regime doesn't change course, it will gradually lag in military competition, given the constraint on resources and the evolution of modern technologies. These technologies center on the processing and transmission of information, technologies that a centrally planned system not only lags in creating but that also threaten its internal control. Moreover, the regime is not in good shape to take on costly new ventures abroad. Still, a note of caution: Operations in Afghanistan, Angola and Nicaragua are being pursued more vigorously under the new management; it won't pass up low-risk opportunities (for instance in Pakistan or Iran), and it still possesses a powerful military establishment.

Although there is much uncertainty about if and when Mr. Gorbachev will try to move toward a marketlike system and [illegible] of collapse; (b) the Soviet Union is not going to strike against the West—retreat is more in character for a Leninist system in difficulty, and (c) Mr. Gorbachev badly needs relief from the military competition of the West and just as badly needs the West's resources.

Issues to Be Aware of

What should the West do? Here are some guiding principles. First, the democracies have an interest in a politically diversified Soviet system. A judgment must be made on whether helping the ailing bear or having unsubsidized economic relations is the better way to promote this goal. Many Europeans and some Americans hold that Western subsidies keep the Soviets from becoming desperate and more dangerous, and promote useful change. That theory, in the form of detente, worked poorly in the 1970s and prospects for it now aren't good. The key reason is that the Moscow establishment doesn't want to change; the more help it gets, the less likely it is to change.

Second, all capitalist leaders should be conscious of the weakening Soviet competitive position. For the Japanese it bears on their recovery of four small Soviet-occupied islands north of Japan's mainland; for the Europeans it offers increased scope for reducing the Soviet military threat to them (without matching Western concessions); for the U.S., which has an interest in all of these issues, it bears on nuclear-arms-control negotiations, extensions of the Soviet empire in the Third World, Jewish emigration and other matters at issue.

Third, the more communication and personal contact there is between the peoples of the Soviet Union and the West—and the freer the communications among the Soviet peoples—the more constrained will be the arbitrary power of the rulers. In addition to what we unilaterally do (today with radios, tomorrow perhaps with direct TV broadcasting), promoting this purpose should be prominent in our continuing transactions with the regime.

The pressure is mounting in Moscow to travel partway down the capitalist road. Although significant movement seems unlikely soon, there may be some by the end of the decade. At a later stage in the evolution of the internal crisis, a wider range of positive Western actions to promote change might be warranted. But that is a later and uncertain prospect.

Mr. Rowen is a professor at the Stanford University Business School and a se[illegible]